



**Annual General Meeting 2022 Fact Sheet**

# Proposed updates to our Constitution

## *Introducing mutual capital instruments (MCIs)*

**These updates to the Constitution are supported by the Members Committee for Teachers Mutual Bank Limited.**

### **What are MCIs?**

To support co-operatives, mutuals and member-owned organisations such as ours, the Federal Government initiated an investigation into legislative reforms that could be made to help the mutual sector be more competitive.

The Senate inquiry and independent review (known as the Hammond Review)<sup>1</sup> looked into the challenges member-based organisations face in raising capital and other issues. The conclusion was that member-owned organisations were not as readily able to raise capital as other organisations, and this affected their ability to grow, innovate and compete.

All entities need capital in order to grow their businesses. In the case of banks, this growth may include offering new products and providing more or better services. However, historically, mutual organisations have only been able to raise capital by retaining profits.

Following the Hammond Review, the Commonwealth Government passed legislation in 2019<sup>2</sup> that provides mutual entities another way to raise capital without affecting their mutual status – the Corporations Act now allows mutual entities to raise equity by issuing ‘mutual capital instruments’ (MCIs).

MCIs are a type of share which can be issued by mutuals who satisfy the new Corporations Act definition of “mutual entity”. Our mutual satisfies this definition, i.e. the Bank is a mutual entity under the Corporations Act. The option to issue MCIs provides us with greater flexibility to raise capital in the best interests of our member shareholders. But we need to update our Constitution to be able to issue these MCIs.

MCIs would be perpetual (i.e. they would have no maturity date), so they would be a form of permanent capital in a mutual entity like ours. A dividend would only be payable on an MCI if the directors decide to pay a dividend. Once issued, MCIs would be tradeable between investors assuming there is a market for them.

### **Is the Bank planning to issue MCIs?**

Teachers Mutual Bank Limited has been in a strong financial position since it was established more than 50 years ago. As a result, we currently have no plans to issue MCIs.

However, we think it’s important to take advantage of the opportunities these reforms present, which is why we want to update our Constitution. We want to be ready and able to issue MCIs in the future, if appropriate.

If that time arrives, any issue of MCIs would first need to be approved by the Board of Directors as being necessary and beneficial to the Bank and in the best interests of our Members. The Bank would also have to secure the necessary regulatory approvals.

### **How will MCIs benefit the Bank – and me?**

The ability to issue MCIs is an important and positive step for mutual entities like ours.

The conditions within the banking industry can change quickly and responding to these changes can require a significant amount of capital.

If the Board of Directors decides that the Bank should issue MCIs, it will likely be so we can respond to changes in the industry for the benefit of our Members or to answer Member demand for new products or services.

Importantly, we will have the option to raise equity without affecting our mutual status.

As mutual organisations have been restricted in how we could raise capital, our ability to grow and compete has been inhibited. Many other mutual organisations have had to demutualise to raise the capital they need to compete.

The aim of MCIs is to avoid this and level the playing field in the banking sector, making it easier for member-owned organisations such as ours to compete and grow while maintaining our mutual status.

## Why do we need to update the Constitution and why now?

We're committed to ensuring that no updates to the Constitution affect the Bank's mutual status now or in the years ahead. These amendments will not affect the Bank's mutual status.

For the Bank to compete effectively and ensure our sustainability in the years ahead, our first step will be to amend our Constitution to bring it into line with the new legislation and become an "MCI mutual entity".

Essentially, we will add a statement into the Constitution confirming our intention to potentially issue MCIs at some stage in the future, and that the Board has the authority to issue MCIs. Other provisions required to be included to satisfy the Corporations Act and APRA requirements are also proposed to be included. These provisions are the same as the provisions which many other mutual entities have already included in their Constitutions since the MCI legislation was introduced in early 2019.

## What do I need to do?

We're asking all members to **vote in favour** of the proposed amendment to Teachers Mutual Bank Limited's Constitution to permit issuance of mutual capital instruments (MCI shares) at the upcoming AGM on Saturday 19 November 2022.

By doing so, you'll help us grow and ensure the sustainability of your mutual bank into the future.

## Who do I speak to for more information?

If you have specific questions about MCIs, please email [agm@tmbl.com.au](mailto:agm@tmbl.com.au).

More details on the AGM are available at: [tmbl.com.au/agm](https://tmbl.com.au/agm).

## MCI resolution

Members will be asked to amend the Constitution:

- to include a statement that Teachers Mutual Bank Limited (TMBL) intends to be a mutual capital instrument (MCI) mutual entity for the purposes of the Corporations Act
- to provide for TMBL to issue MCIs (subject to necessary regulatory and Board approvals)
- to provide for the rights and obligations attached to MCIs
- to make updates that are incidental or ancillary to the purposes above (such as references to MCIs which relate to shares).

## TEACHERS MUTUAL BANK LIMITED



<sup>1</sup>Greg Hammond OAM, Independent Facilitator Review Report on Reforms for Cooperatives, Mutuals and Member-owned Firms, 8 November 2017, accessed 11 July 2022.

<sup>2</sup>Australian Parliament, Treasury Laws Amendment (Mutual Reforms) Bill 2019, accessed 11 July 2022.